Saskatchewan Transportation Company

Second Quarter Report 2009

2009 2nd Quarter Corporate Reporting

Management Discussion and Analysis

The following Management Discussion and Analysis (MD&A) provides insight into the Saskatchewan Transportation Company's (STC) operations in the second quarter of 2009. From a management perspective, it highlights the primary factors that impacted our operations and the financial results of the Company over the past six months.

This MD&A compares the operational outcomes of the second quarter of 2009 to the corresponding quarter in the previous year (second quarter of 2008) and to the anticipated financial position of the Company over the full year. It also discusses any emerging issues that will have an impact on the Company's fiscal position.

Passenger Services:

In the first half of 2009, STC coaches traveled approximately 1,570,000 miles, serving 290 Saskatchewan communities. This is an increase of seven (7) from the previous year and includes new communities served on the La Loche – Prince Albert route, effective March 2009.

Revenues from passenger operations in this quarter were $1,525,000, down from $1,812,000 in revenues reported in the second quarter of 2008. Year to date passenger revenues were $3,298,000, compared to $3,787,000 for the same period in 2008.

Expenses associated with operating passenger services in this quarter were $2,769,000, up from the 2008 figure of $2,410,000. Year to date passenger operating expenses were $5,502,000, up from the 2008 total for the same period of $4,923,000.

Operating losses for passenger services in the quarter were $1,244,000, compared to a loss of $598,000 in the second quarter of 2008. Year to date loses were $2,204,000, compared to a loss of $1,136,000 for the same period in 2008.

In 2008, Canada's bus industry was impacted by an unprecedented tragic event on a Greyhound bus travelling in Manitoba. The industry, including STC, responded with new security measures, but experienced reductions in ridership. STC continues to feel the negative impacts of this event. Total ridership for the first half of 2009 was 123,351, compared to 135,743 in the same period of 2008, a decrease of approximately 9%.

In the second Quarter of 2009 STC continued its seat sale trials. Despite the increased advertising and seat sale activity, ridership did not increase overall. The decline in ridership, coupled with the discounted fares, has resulted in the erosion of STC's passenger services revenue.

In an effort to attract riders that have been lost over the past year, STC did not increase its passenger fares in 2009.

Express Service:

Through its network of close to 200 agents in the province and interconnecting arrangements with other carriers, STC hauls freight throughout the province and connects to destinations across North America.

In the second quarter of 2009, revenues from express operations were $1,982,000, up from the revenues of $1,928,000 reported in the second quarter of 2008. Year to date express revenues were $3,505,000 as compared to $3,352,000 for the same period in 2008.

Expenses associated with operating express services in the second quarter of 2009 were $1,374,000, up from the 2008 second quarter figure of $1,336,000. Year to date express operating expenses were $2,716,000, as compared to $2,599,000 for the same period in 2008.

Profits realized for express operations in the second quarter were $608,000, compared to a profit of $592,000 in the second quarter of 2008. Year to date profits were $789,000 compared to $753,000 for the same period of 2008.

STC's express service tends to be somewhat seasonal. It is anticipated express revenues will increase in the remaining quarters when the farming industry becomes more active.

Maintenance Services:

STC operates two service garages, one in Saskatoon for major bus servicing, and one in Regina for routine serving and maintenance. In addition, the Company uses these facilities to perform maintenance work for other bus companies, as well as to store vehicles for other companies.

In the second quarter of 2009, expenses associated with maintenance services were $874,000, an increase compared to $843,000 in the second quarter of 2008. Year to date maintenance expenses were $1,793,000 as compared to $1,721,000 for the same period of 2008.

Financial Summary:

Overall, STC's revenues for the second quarter of 2009 amounted to $3,782,000, compared to $4,045,000 in the second quarter of 2008. Year to date revenues were $7,326,000 as compared to $7,703,000 for the same period of 2008.

Expenses for the second quarter were $6,636,000, compared to $5,974,000 for 2008. Year to date expenses were $13,140,000 as compared to $11,880,000 for the same period of 2008.

The Company's loss before grants for the quarter was $2,854,000, compared to $1,929,000 in the second quarter of 2008. Year to date losses were $5,814,000 as compared to $4,177,000 for the same period of 2008.

STC has been approved for an operating grant of $7.8 million from its holding company, the Crown Investments Corporation (CIC) of Saskatchewan. Current projections for the year, based on the second quarter, indicate that the Company will require the full amount of grant funding. Depending on the results of the Company's cost containment efforts, additional funding may be required as a result of the lower than expected ridership in 2009.

In this year's first and second quarters, STC drew down $4,250,000 of the grant funds available from CIC. STC had no outstanding loans or indebtedness in the quarter.

At the end of this quarter, the Government's equity in STC was $9,338,000 compared to $10,239,000 in the second quarter of 2008.

Future Accounting Changes - International Financial Reporting Standards (IFRS):

In February, 2008, the Canadian Institute of Chartered Accountants (CICA) Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian Generally Accepted Accounting Principles (GAAP) for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year. The Public Sector Accounting Board (PSAB) is currently deliberating the definition of publicly accountable enterprises as it applies to government entities including the Crown Investment Corp (CIC) and its subsidiaries. The PSAB issued an exposure draft in July 2009, *Financial Reporting by Certain Government Organizations (Amendments to Introduction)*, which if accepted, would require Government Business Enterprises (GBEs) to adopt IFRS and Other Government Organizations (OGOs) to adopt either IFRS or the public sector handbook, whichever is considered the most appropriate basis of accounting. CIC believes that IFRS is the most appropriate basis of accounting for all its subsidiaries and therefore the Saskatchewan Transportation Company (STC) as on OGO is proceeding with adoption of IFRS.

STC has commenced an IFRS conversion project including initiating the development of a high level IFRS implementation plan which include stakeholder identification, milestones and deadlines, planned scope and approach, risks and mitigations, project governance and accountability responsibilities, and resource requirements. An external advisor was engaged to assist with the development of this plan and performed a detailed review of major differences between current Canadian GAAP and IFRS.

A project team has been created and has completed an initial assessment of those international financial reporting standards with the highest potential for impact. Based

on the analysis to date, the most significant areas of difference are related to accounting for property, plant and equipment, and financial statement disclosures. At this time, the impact on STC's processes, systems, internal controls over financial reporting and disclosures, future financial position, and results of operations is not reasonably determinable. Draft impacts on processes, systems and controls as well as draft IFRS financial statements presentation formats are anticipated in the second half of 2009.

As part of the IFRS implementation, STC plans to make changes to certain processes and systems before 2010 to ensure transactions are recorded in accordance with IFRS for comparative reporting purposes on the required implementation date.

Saskatchewan Transportation Company

Statement of Financial Position

(unaudited - thousands of dollars)

		As at June 30, 2009		As at December 31, 2008
Assets				
Current				
Cash	$	1,150	$	2,676
Accounts receivable		939		1,560
Inventories		398		383
Prepaid expenses		606		437
		3,093		5,056
Property, plant and equipment		40,000		40,523
	$	43,093	$	45,579

Liabilities and Province's Equity				
Current				
Accounts payable and accrued liabilities	$	2,402	$	3,324
Deferred capital grant		31,353		32,365
Province of Saskatchewan's Equity				
Contributed Surplus		465		465
Retained earnings		8,873		9,425
	$	43,093	$	45,579

Saskatchewan Transportation Company

Statement of Operations and Retained Earnings

(unaudited - thousands of dollars)

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Revenue				
Express services	$ 1,982	$ 1,928	$ 3,505	$ 3,352
Passenger services	1,525	1,812	3,298	3,787
Other	263	312	500	571
Gain (loss) on disposal of property, plant and equipment	12	(7)	23	(7)
	3,782	4,045	7,326	7,703
Expenses				
Operating	5,017	4,589	10,011	9,243
Administration	967	904	1,821	1,669
Amortization	652	481	1,308	968
	6,636	5,974	13,140	11,880
Loss before the following	(2,854)	(1,929)	(5,814)	(4,177)
Operating grant	2,000	2,000	4,250	3,500
Capital grant	507	328	1,012	666
Net income (loss)	(347)	399	(552)	(11)
Retained earnings, beginning of period	9,220	9,840	9,425	10,250
Retained earnings, end of period	$ 8,873	$ 10,239	$ 8,873	$ 10,239

Saskatchewan Transportation Company
Statement of Cash Flows
(unaudited - thousands of dollars)

	Three months ended June 30 2009	Three months ended June 30 2008	Six Months Ended June 30 2009	Six Months Ended June 30 2008
Operating Activities				
Net loss	$ (347)	$ 399	$ (552)	(11)
Items not involving cash:				
Amortization	652	481	1,308	968
Gain on disposal of property, plant and equipment	(12)	7	(23)	7
Recognition of capital grant	(507)	(328)	(1,012)	(666)
Net change in non-cash working capital	259	80	(485)	(1,275)
Cash provided by (used in) operating activities	45	639	(764)	(977)
Investing Activities				
Additions to property, plant and equipment	(366)	(2,333)	(807)	(4,245)
Net change in non-cash working capital related to extraordinary item	-	(7)	-	(7)
Proceeds on disposal of property, plant and equipment	14	-	45	-
Cash used in investing activities	(352)	(2,340)	(762)	(4,252)
Financing Activities				
Capital grant received	-	2,150	-	5,250
Cash provided by financing activities	-	2,150	-	5,250
Increas (decrease) in cash	(307)	449	(1,526)	21
Cash, beginning of period	1,457	1,189	2,676	1,617
Cash, end of period	$ 1,150	$ 1,638	1,150	1,638

1. Basis of Presentation and Significant Accounting Policies

The interim financial statements of the Saskatchewan Transportation Company (the Company) have been prepared by management in accordance with Canadian generally accepted accounting principles. Certain information and disclosures normally required to be included in the notes to annual financial statements have been condensed or omitted. The interim financial statements should be read in conjunction with the financial statements and notes thereto in the Company's annual report for the year ended December 31, 2008.

These financial statements have been prepared following the same accounting principles as the financial statements for the fiscal year ended December 31, 2008.

2. Seasonal Nature of Express Revenues

Historically, STC's express service tends to be seasonal with the first quarter being slightly lower and the fourth quarter being slightly higher than the second and third quarters. This is due to the absence of significant agricultural activity in the first quarter and the increase in holiday shipping in the fourth quarter of the year.